

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector	(2) MEETING DATE 11/24/2015	(3) CONTACT/PHONE Gordon Eiland, (805) 781-5848 Jim Erb, (805) 788-2964	
(4) SUBJECT Request to approve the 2016 County Treasury Investment Policy. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board review and approve the County Treasury Investment Policy for the calendar year 2016.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? No
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____) <input type="checkbox"/> Board Business (Time Est. ____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors

FROM: James P. Erb, CPA
Auditor - Controller - Treasurer - Tax Collector - Public Administrator

DATE: November 24, 2015

SUBJECT: Request to approve the 2016 County Treasury Investment Policy. All Districts.

RECOMMENDATION

It is recommended that the Board review and approve the County Treasury Investment Policy for the calendar year 2016.

DISCUSSION

Summary

The Treasury Investment Policy ("Policy") is reviewed annually. There are no changes to the Policy's overall investment philosophy, objectives, or priorities. The specific investment restrictions remain conservative compared to many other counties. This year, the policy is being updated to reflect changes to California Government Code (CGC) Section 53601(q), which add instruments issued by three large supranational banks as allowable investments.

Background

The Policy was established in May 1983 by the County Treasurer (the first written county investment policy in the State). The purpose is to clearly state investment guidelines for the protection of funds, define the objectives of managing the funds, and maintain internal controls and reporting requirements. The primary objectives in order of priority, by law, are safety, liquidity, and yield, while maintaining compliance with federal, state, and local laws and regulations. The Policy is reviewed at least annually and revised as needed.

No Change to Philosophy

In making investment decisions, the County Treasurer continues to emphasize safety of principal above all other considerations, followed by liquidity, and then yield. The investment restrictions contained in the Policy continue to reflect this philosophy.

Updates to the Policy

The 2016 Policy is updated with the addition of supranational banks to the authorized investments in the Summary of Investment Restrictions. On January 1, 2015, investments in three such "Supranationals" became authorized under CGC Section 53601(q): the International Bank for Reconstruction and Development (also known as the World Bank), the International Finance Corporation, and the Inter-American Development Bank.

Instruments issued by these institutions are guaranteed by member countries, which include the United States, Japan, China, Germany, UK and over 180 others. The United States is the largest shareholder of each, membership is authorized by Congressional Act, and the U.S. Secretary of the Treasury sits on the Board of Governors of each institution. The Supranational instruments authorized under California Government Code have AAA/Aaa credit ratings from Standard and Poors and Moody's respectively. These top credit ratings are based on the financial strength of the issuers, as well as the diversified sovereign shareholders that provide support and capital backing, conservative risk management, quality of the loan portfolio, substantial liquidity and consistent profitability, and strong capitalization. All three institutions have headquarters in the U.S.

The three Supranationals above are international development institutions, which provide financing, advisory services, and/or other financial services to their member countries to achieve the overall goal of improving standards of living through sustainable economic growth. Financings by these institutions are considered socially responsible and support primary and secondary education, programs to integrate youth into the employment market, "green" projects, women-led businesses, and inclusive businesses (supporting the world's poorest people).

By adding Supranationals to the Policy, the Treasurer is able to consider them as investment alternatives. Having them in the Policy does not mean such investments will actually be made. Many investments authorized in the Policy have never actually been used because the tradeoffs of safety, liquidity, and yield have never been favorable compared to the alternatives.

The Supranationals included in the Policy are very low risk investments, which meet the first priority of safety above all other considerations, and therefore should be allowed as viable alternatives. Whether such investments are actually made depends on the other two factors (liquidity and yield), relative to all the other choices available at the time. The County Treasury investments are always governed by ensuring safety of funds first, then liquidity second, and then yield third.

Currently, Kern, Merced, Sacramento, San Bernardino, San Diego, Santa Clara, Solano, and Tulare counties have invested in Supranationals under 53601(q), and almost all counties are in the process of adding them as allowed investments in their Policies, as is proposed herein.

The other update to the Policy this year is a technical change. The CGC section reference for the Federally Insured Cash Account (FICA) changes from CGC Section 53631 et seq. to CGC Section 53635.8 in the Summary of Investment Restrictions section. The change is to recognize the use of a private sector entity which assists in the placement of deposits in a FICA and the inclusion in an aggregate concentration limit of 30% of the investment pool for these accounts and certain Certificates of Deposit. The County currently has no deposits in a FICA.

OTHER AGENCY INVOLVEMENT/IMPACT

The Policy was approved on October 26, 2015, by the County Treasury Oversight Committee, which includes the County Auditor-Controller-Treasurer-Tax Collector-Public Administrator, a representative appointed by the County Board of Supervisors, the County Superintendent of Schools designee, a representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college district in the County, and one member of the public with expertise in, or academic background in public finance.

FINANCIAL CONSIDERATIONS

Since 1983, the Policy has provided an important foundation for maintaining the safety of funds in the investment pool. There are no changes to budgets or staffing to implement the Policy.

RESULTS

One of the goals of the County Treasury is to manage the investment pool in a manner that ensures the preservation of capital and provides the ability to meet the cash flow needs of the investment pool participants. The 2016 Policy will further enhance the County Treasurer's ability to attain this goal. In addition, the Policy provides information to the Board of Supervisors and the public regarding the stringent control exercised by the County Treasurer over the investment of public funds. These results are consistent with the County's goals to maintain "A Prosperous and Well Governed Community."

ATTACHMENTS

1. Proposed Treasury Investment Policy for Calendar Year 2016